MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

T3, 2017/2018

BFM7094 - FINANCIAL MARKET

(MBA Full Time)

6 JUNE 2018
9.00 a.m. -12.00 p.m.
(3 Hours)

INSTRUCTION TO STUDENT

1. This question paper consists of **THREE (3)** pages including this cover page.
2. There are **FOUR (4)** questions. Answer **ALL** questions.
3. Please write all your answers in the **Answer Booklets** provided.

QUESTION 1

The most important player in financial markets throughout the world is central bank. In Malaysia, Bank Negara Malaysia (Central Bank) act as regulator and policy maker of monetary policy.

a. Discuss the role of Bank Negara Malaysia (Central Bank). (12 marks)

b. Explain Fiat money and its application to modern banking system. (5 marks)

c. Discuss four (4) reasons why cryptocurrencies should not be recognized. (8 marks)

(Total: 25 marks)

QUESTION 2

Financial market is a market in which people trade financial securities, commodities, and other fungible items of value at low transaction costs and at prices that reflect supply and demand.

a. Is liberalization of financial markets good for economy? (6 marks)

b. Discuss the development of global financial market. (9 marks)

c. Bonds are sensitive to interest rates movement. Explain three (3) factors of a bond that influence interest rate. (6 marks)

d. One year interest rates over the next six years are expected to be 8%, 4%,6%, 7%, 8% and 7%. What are the interest rates on a two-year bond and six-year bond?

(4 marks)
(Total: 25 marks)

QUESTION 3

Many financial crises were associated with financial institution panics. As a result, government has introduced many mechanism to control investment risk. These mechanism includes private pension fund and mutual fund.

a. Define financial crisis? (3 marks)

b. Discuss four (4) factors of financial crisis which had occurred in the emerging market. (12 marks)

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c. Distinguish between Public Pension (PP) and Private Retirement Scheme (PRS). (4 marks)

d. Prudential BSN Berhad has unfunded pension liability of RM650 million that must be paid in 20 years. If the discount rate is 7.4%, what is the present value of this liability? (6 marks)

(Total: 25 marks)

QUESTION 4

Financial derivatives have been introduced to manage financial institution risks.

a. Explain the following financial derivatives
   i. Forward contracts
   ii. Financial Fututes
   iii. Options (9 marks)

b. A banker commits to a two-year $5,000,000 commercial loan and expects to fulfill the agreement in 30 days. The interest rate will be determined at that time. Currently, rates are 7.5% for such loans. To hedge against rates falling, the banker buys a 30-days interest rate floor with floor rate of 7.5% on a notional amount of $10,000,000. After 30 days, actual rates fall to 7.2%. What is the expected interest income from the loan each year? How much did the option pay? (7 marks)

c. Explain three (3) main risks associated to financial derivatives (9 marks)

(Total: 25 marks)

End of Paper